McDonnell Douglas Corporation

McDonnell Douglas Corporation's major lines of high-technology aerospace products include military and commercial aircraft, space systems and missiles. In addition, MDC has rapidly growing smaller lines of business in computers and data processing services, commercial financing and leasing, and emerging lines in several other fields. According to the most recent listings, MDC ranks 45th in sales among the largest industrial corporations in the U.S., sixth in value of exports, and second in defense contract awards. Major manufacturing facilities are situated in St. Louis, Mo.; Long Beach and Huntington Beach, Calif.; Tulsa, Okla., and Toronto, Canada.

HIGHLIGHTS

YEARS ENDED 31 DECEMBER (Dollar amounts in millions, except share data)	1982	1981
Sales	$7,331.3	$7,384.9
Net earnings	$214.7	$176.6
Earnings per share	$5.44	$4.44
Cash dividends declared	$47.6	$41.2
As of 31 December		
Shareholders' equity per share	$47.24	$42.93
Working capital	$546.9	$374.8
Firm backlog	$10,164.7	$8,780.2
Personnel	72,451	74,264

◄ *Cover: From top, AV-8B, F/A-18 and F-15.* ▲ *Above: Super 80 jetliner at Lake Tahoe.*

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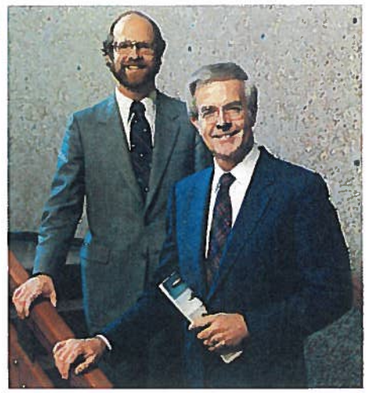
TO SHAREHOLDERS AND CO-WORKERS



JOHN F. MCDONNELL
President

SANFORD N. MCDONNELL
Chairman and Chief Executive Officer

McDonnell Douglas Corporation's 1982 sales were $7.33 billion, about 1% less than in 1981.

This was a considerable achievement in light of the fact that commercial aircraft sales declined $1.02 billion, or 42%. It reflects the strength of our other established lines of business: taken together, military aircraft and space systems and missiles increased their sales by 18%. It also reflects sales growth of 33% in our newer lines of business, the largest of which is information systems.

Earnings were 22% higher in 1982 than in 1981. The improvement would have been 14% without two provisions — one amounting to $50 million before taxes in 1981, another of $30 million before taxes in 1982 — to cover losses related to commercial aircraft financing.

The most conspicuous of MDC's strengths continued to be our preeminence among the world's producers of combat aircraft. The three airplanes on the cover of this report — the F-15 Eagle, the F/A-18 Hornet, and the AV-8B Harrier II — represent a balanced mix of growing and mature programs unmatched in the aerospace industry.

The F-15, our most mature fighter program, continues to perform brilliantly in its air superiority role while proving itself equally capable in reconnaissance and attack missions. The dual-mission F/A-18 strike fighter is now entering volume production, with the U.S. Government's fiscal year 1983 budget including funds for 84 Hornets. The vertical-takeoff AV-8B is just beginning the transition from development to pilot production. Such a combination of aircraft provides a basis for long-term stability and growth.

Throughout 1982 the F/A-18 Hornet continued to prove its excellence both as a fighter and as an attack aircraft and to demonstrate remarkably superior reliability and maintainability. During the year the Hornet was named winner of Spain's fighter selection competition. This third consecutive foreign success, coming at a time when the aircraft was the target of sometimes highly publicized and often highly ill-informed criticism, provided further proof that the Hornet is well equipped to perform both of its missions and is superior to other aircraft evaluated by Canada, Australia and Spain. The fact that the Hornet has never lost a selection competition is objective evidence of the high order of its capabilities.

Efforts to improve the defenses of the United States at a time of widespread recession have put intense pressure on the defense budget, the military services, and contractors. Responding to this situation, and confident of the outstanding efficiency of our manufacturing operations, we have agreed with the Navy to a firm fixed-price Hornet contract for fiscal year 1982. Though this agreement does not provide a rate of return appropriate to a firm fixed-price contract, the severity of defense budget problems made its acceptance necessary.

The strength of our space systems and missiles line of business was reflected in 1982 sales of $1.3 billion, up 36% from 1981. This growth was achieved through success with a broad range of programs, several of them relatively new and offering much potential. For example, during 1982 MDC was selected to become a second-source manufacturer of Tomahawk cruise missiles, and significant progress was made on development of an advanced version of the Harpoon anti-ship missile.

McDonnell Douglas Automation Company (MCAUTO®), Microdata Corporation, and McDonnell Douglas Finance Corporation (MDFC) all had high rates of growth in 1982. For the first time, more than half of MCAUTO's sales were to customers outside the MDC family of companies. And more than half of MDFC's portfolio now involves — also for the first time — products other than MDC jetliners.

Our most serious challenges in 1982 involved commercial aircraft and the Douglas Aircraft Company division which produces them. The worldwide air transport industry remained severely depressed throughout the year, and MDC's commercial aircraft sales were only 58% of 1981's. Many airlines sustained heavy losses in 1982 and are finding it increasingly difficult not only to order new aircraft but even, in some cases, to take delivery of jetliners ordered many months ago.

Because so few new orders were received and therefore few 1983 deliveries were being scheduled, the Douglas division was faced with the prospect of an abrupt cut in the production rate for the twin-engine Super 80 jetliner. Such a cut would have had a highly adverse effect on unit costs. It also would have aggravated the impact of two other problems. The first of these was that economic conditions have had a particularly devastating impact on demand for larger aircraft of very high passenger capacity; no orders for MDC's DC-10 were received in 1982, and as a result DC-10 production is being sustained only by U.S. Air Force orders for the KC-10 military version. Second, only limited amounts of money have been provided for development of the C-17 long-range cargo aircraft that we hope to build at Douglas as a result of having won an Air Force competition. More extensive C-17 work would have absorbed plant overhead that in its absence must be borne by the Super 80 and DC-10/KC-10 programs. Loss of the expected amount of C-17 work was, accordingly, a significant setback.

In the course of 1982 MDC developed and implemented a strategy for dealing with this situation. At the center of our strategy was an innovative package of short-term leases that will enable American Airlines and Trans World Airlines to introduce a total of 35 Super 80s into their fleets. This approach, though purposely limited to only two customers, has accomplished three important objectives.

It provides a way of getting new jetliners into service despite the financial difficulties of airlines, assuring us of 12 crucially important months of more efficient Super 80 production.

By placing the Super 80 with American and TWA (the world's third and fifth largest airlines respectively), our approach spreads awareness of the aircraft's advantages in fuel efficiency, noise control and passenger appeal. It constitutes a market breakthrough that should help to generate further demand.

And, very importantly, it focuses attention on the Super 80 as an aircraft better suited than any other now available to meet airline demand for an economical, attractive jetliner in the 150-passenger class. The expectation that market conditions might soon improve enough to justify the introduction of an all-new aircraft of this size has diminished markedly in the face of continuing worldwide recession. Expanded use of the Super 80 is likely to make an all-new aircraft seem less necessary to airlines around the world.

Our approach will have a negative effect on earnings in the next few years if MDC carries most of the leases. It also involves risk: there exists the possibility the aircraft involved could be returned at a time when they might not be easily sold or re-leased to other airlines. We believe this risk is outweighed by the opportunities our strategy opens to us.

Shortly after implementing this strategy we reached an agreement, announced in November 1982, to sell 30 Super 80s costing a total of approximately $1 billion to Alitalia. A key to that sale was our willingness to purchase 39 of Alitalia's older DC-9, DC-10 and 727 aircraft. This placement of the Super 80 with the world's fifteenth largest airline is another significant penetration of the 150-passenger market and further fills out our production and delivery schedule.

Having assured that near-term Super 80 production rates will be high enough to justify introduction of derivative versions, in January 1983 we decided to proceed with development of an extended-range model named the Super 83. Another derivative, with a shortened fuselage carrying 110 to 120 passengers, is under consideration. Together, these aircraft make up a family of twin-jets that is likely to have strong market appeal when the financial strength of airlines improves.

Other developments also have helped us deal with the challenges facing the Douglas division. Work continued throughout 1982 on the VTXTS pilot training system, a Douglas program for the U.S. Navy, and the fiscal 1983 Defense Department budget includes money for continued though limited C-17

1. F-15 Eagles.
2. AV-8B Harrier II.
3. F/A-18 Hornets.
4. KC-10 tanker-cargo aircraft.

development. An Air Force contract for multi-year procurement of the KC-10 provides for continued production of our larger transports for several years, though this production will be subject to annual appropriations by Congress and will be at only marginally acceptable rates. This contract provides time for us to explore possible development of a tri-jet that would combine the DC-10's proven aerodynamic design with new engines, improved avionics, an all-new cockpit far more automated than those now used in our jetliners, and other technological advances. The proposed new aircraft, named the MD-100, would offer airlines intercontinental range along with superior fuel efficiency.

We have the financial strength necessary to improve and broaden our line of jetliners when market conditions are favorable. We have also instituted cost reduction and productivity improvements (such as sharply reduced inventory lead times) that lower costs for each transport aircraft produced. All the actions taken during the past year are helping to improve our relative position in the jetliner market. They will put us in a better position to return our commercial aircraft line to profitability when the market improves.

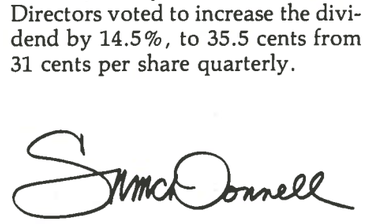
Several senior members of our management team retired in 1982, and new chief executives were appointed at Douglas Aircraft, McDonnell Aircraft, MCAUTO and Microdata. We are grateful for the services contributed over many years by the executives who retired, confident in the skills and experience their successors bring to new responsibilities, and pleased that it has proved possible to make so many significant changes in orderly fashion in a single year.

Looking to the future, we have confidence in MDC's capacity for functioning effectively even under difficult conditions but see cause for continued concern about the economies of the U.S. and the free world. Without appreciable improvement in world economic conditions, airlines are unlikely to accumulate the capital needed for purchasing new equipment.

Continued economic stagnation would pose serious problems in the area of defense spending, too. If federal budget deficits reach the levels forecast by some analysts, pressures will surely mount in support of defense spending cuts that would not be regarded as acceptable in a less troubled economy. Another serious problem involves the increasingly difficult and uncertain process by which the Department of Defense and Congress together develop U.S. defense budgets. Delays and frequent changes in deciding which programs will be funded, and the levels at which they will be funded, make orderly planning and efficient operations very difficult.

These are, of course, broad problems beyond the control of any corporation. In the many areas for which we can take responsibility — particularly the quality of our people, our products and our facilities — we see many good reasons for being optimistic about what lies ahead. We are committed to protecting and developing our traditional strengths as an organization while remaining flexible enough to deal effectively with changes as they arise.

On 28 January 1983 our Board of Directors voted to increase the dividend by 14.5%, to 35.5 cents from 31 cents per share quarterly.



Chairman
and Chief Executive Officer

President

8 February 1983

MILITARY AIRCRAFT

F/A-18 HORNET: During 1982, the F/A-18 Hornet strike fighter entered full-scale production and squadron operations. Four Hornets per month were rolling off the production line at year-end, and 54 of the 1,377 planned for the U.S. Navy and Marine Corps had been delivered. The industrial team producing the Hornet includes Northrop, General Electric and Hughes.

Canada received its first three F/A-18s and Spain announced its intention to purchase 84, with deliveries beginning in 1986 and continuing into 1989. The Spanish decision follows Australia's order for 75 Hornets and Canada's for 138.

During the year, in response to strong budgetary pressure, MDC and the Navy settled on a unit flyaway cost of $22.5 million for the 63 Hornets being purchased under the government's fiscal 1982 budget. This amount provides earnings which are inappropriately low for a firm fixed-price contract, but MDC's acceptance of it was a necessary short-term response to pressures on the defense budget.

After completion of a five-month operational evaluation, full-scale production of Hornets for the attack role was recommended by the Defense Systems Acquisition Review

1. MDC's 2,000th jet transport.
2. American Airlines' first Super 80.
3. Super 80 in paint shop.

Council. Authorization of funding for this production remains subject to resolution of several issues by Congress and the Defense Department. Production of Hornets for the fighter role was approved in 1981.

AV-8B HARRIER II: British Royal Air Force and U.S. Marine Corps, Navy and Air Force pilots began evaluating the AV-8B Harrier II during 1982, flying four full-scale development aircraft from test centers in California and Maryland. The Harrier II had accumulated 630 flight hours in 576 flights at year-end, demonstrating double the range or the payload of earlier Harrier aircraft. One test flight demonstrated that a new autopilot, developed by Sperry for MDC, for the first time allows the pilot of a vertical/short takeoff and landing (V/STOL) jet to land vertically while keeping his hands off the flight controls throughout the final 50-foot descent to touchdown.

MDC received funding for the first 12 production AV-8Bs in 1982. Funding for an additional 21 aircraft is expected in 1983, along with long-lead funds for up to 32 others planned for 1984.

MDC proposed a two-seat trainer version of the Harrier II to the Marine Corps. If development and production funds are made available as planned, the first of 28 TAV-8B trainers will be delivered in 1986. MDC also received a $56 million contract from the Navy for development and manufacture of three AV-8B pilot training simulators.

F-15 EAGLE: The F-15 achieved spectacular results in a U.S. Air Force air-to-air weapons competition in Florida in October. Eagle teams captured the top four places in the meet, which involved 13 teams flying four types of fighters. En route to the meet, six Air Force F-15s — refueled in flight by an MDC-built KC-10 Air Force tanker — flew more than 8,000 miles in 15 hours to set an F-15 non-stop distance record.

Testing was conducted successfully throughout the year on a 15-month MDC/Air Force integrated flight and fire control (IFFC) program. IFFC will allow Eagle pilots to track a target with hands off the controls while firing cannon in high-speed, head-on engagements or drop bombs accurately while the aircraft is performing evasive maneuvers.

MDC delivered an F-15 modified to launch the Air Force's anti-satellite weapon. Air Force flight testing started late in the year.

In December, the Air Force began flight evaluation of an enhanced F-15 as a dual-role fighter of the future. Since 1977 MDC has been testing, as attack aircraft, prototype two-seat F-15s with increased fuel capacity, forward looking infrared capability, improved radar, advanced technology aft cockpit, and a higher air-to-ground weapons payload. This derivative is an all-weather, long-range fighter-bomber which retains the Eagle's superior air-to-air maneuvering and weapons abilities.

Also in December, MDC delivered the first of 150 new, high performance bomb racks for Air Force F-15s assigned to the nation's Rapid Deployment Force. The MDC-designed racks, built under a $15 million production contract, enable the F-15 to carry a wide variety of air-to-ground weapons.

KC-10 EXTENDER: A multi-year, $2.8 billion contract for 44 additional KC-10 Extender tanker/cargo aircraft for the U.S. Air Force was funded by Congress late in the year. Fiscal 1983 funding of $867 million will cover purchase of the first eight of these KC-10s and parts and equipment for others. Under this contract deliveries will begin in 1983 and, subject to annual appropriations of funds by Congress, are to continue into 1987.

Multi-year procurement approval brought the total authorized purchase to 60 Extenders, 24 of which are under firm contract. Twelve had been delivered at year-end.

C-17: The continuing resolution voted by Congress for fiscal 1983 provides $60 million for work on the C-17 advanced cargo aircraft for the Air Force. Early in 1983 it was reported that the Defense Department may seek a reduction of this amount.

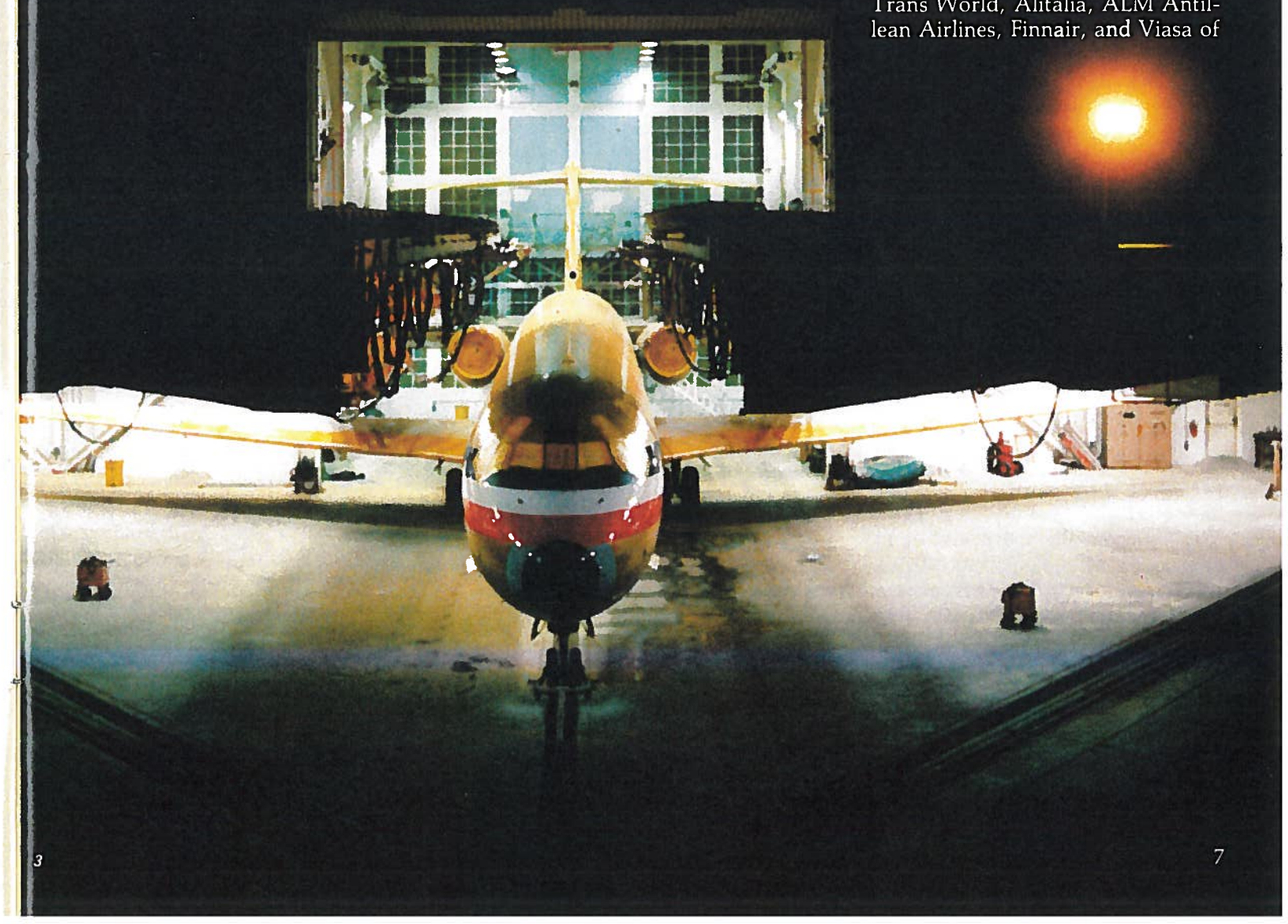
VTXTS: Work on the VTXTS jet trainer aircraft and pilot training system for the U.S. Navy will continue into 1984 under a $15 million contract received in 1982. The MDC-led VTXTS team includes British Aerospace, Rolls Royce, and Sperry.

COMMERCIAL AIRCRAFT

DC-9/SUPER 80: In January 1983 MDC announced a decision to proceed with development of a new version of the Super 80 jetliner. This new Super 83 will offer an increase of more than 35% in range, compared with Super 80s presently in service. It will be available for airline service early in 1985.

Forty-four DC-9 twin-jets including eight Series 30s, 34 Super 80s and two C-9Bs for the U.S. Navy were delivered in 1982. This compares with 78 deliveries in 1981.

Airlines selecting the Super 80 for the first time included American, Trans World, Alitalia, ALM Antillean Airlines, Finnair, and Viasa of



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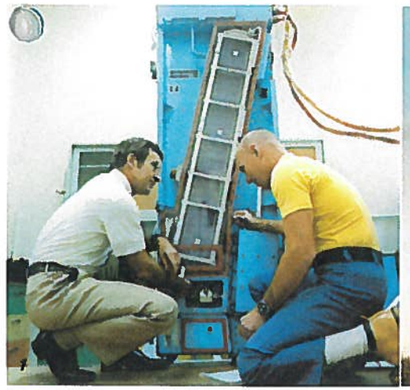
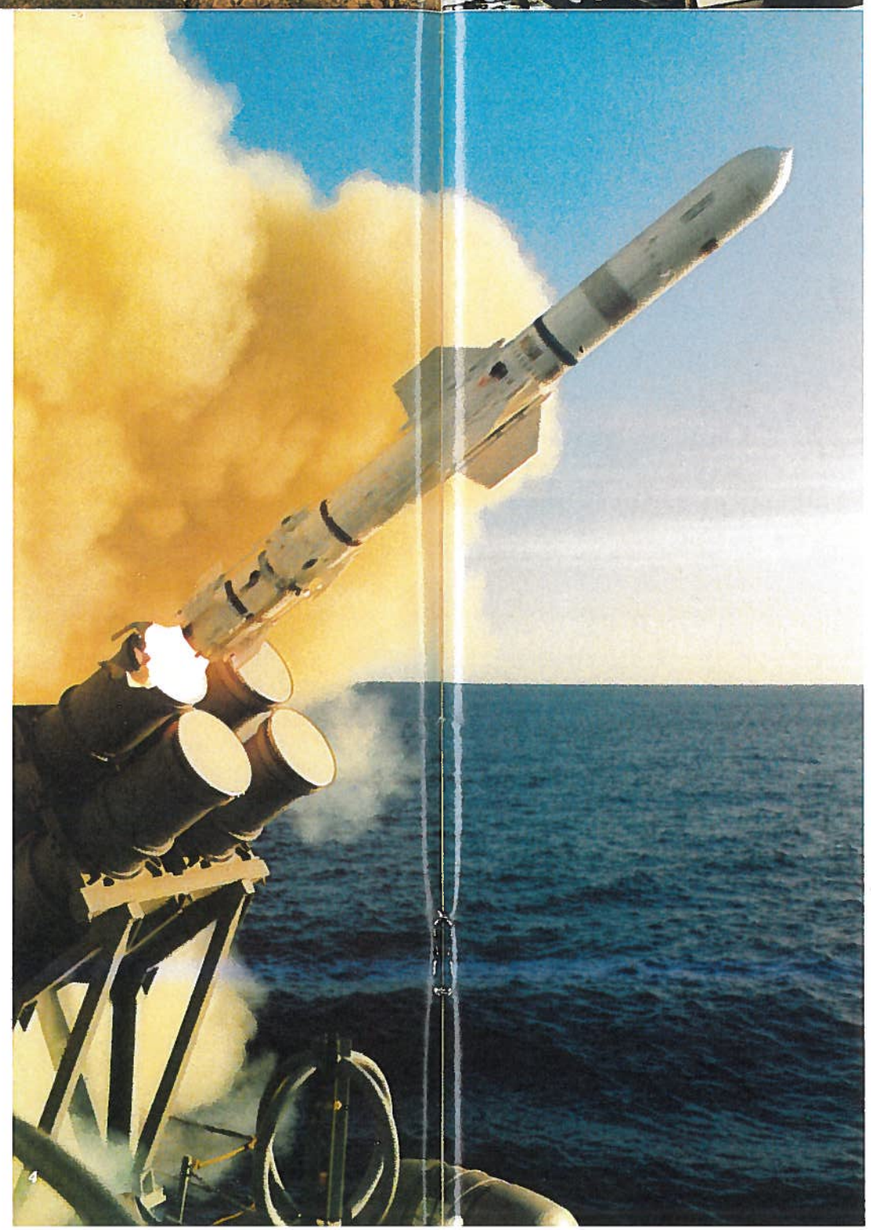


1. EOS electrophoresis device.
2. Mast-mounted helicopter sight.
3. PAM with white sun shield.
4. Harpoon anti-ship missile.



Venezuela. The American and TWA transactions involved a total of 35 aircraft and five-year leases with options to extend for an additional 13 years. Alitalia agreed to purchase 30 Super 80s.

Airlines found the Super 80 to be exceptionally fuel-efficient, quiet and popular with passengers, who preferred it by as much as eight to one in surveys comparing it with competing aircraft.

DC-9 firm orders increased in 1982 by 84, all of them Super 80s. The net gain was 17 in 1981. Bookings in the fourth quarter, including the American and TWA leases, amounted to a record 77 aircraft.

As of 31 December 1982, DC-9/Super 80 program status included 50 firm orders, 35 aircraft being built for lease, 46 conditional orders and options and 1,077 deliveries for a total of 1,208 aircraft. The Super 80 accounted for 232 of this total.

DC-10: Five DC-10s including one Series 10, three Series 30s and one Series 40 were delivered in 1982. This reflected the sharp decline in demand for large aircraft during three years of worldwide recession. Nineteen commercial DC-10s were delivered in 1981.

During the third quarter MDC delivered its 2,000th jet transport, a DC-10 Series 10 convertible freighter, to United Airlines. The aircraft was the first to be built under the Air Force's Civil Reserve Air Fleet program, which means it could be drafted into government service in a national emergency.

A performance management system which will help pilots achieve maximum fuel efficiency on DC-10 flights was certified in January 1983 after completion of flight testing.

No new firm orders for commercial DC-10s were booked in 1982, compared with three the previous year. Firm orders were received for 12 Air Force KC-10 Extenders, advanced tanker/cargo derivatives of the DC-10. Eight of these were part of a multi-year procurement of 44 KC-10s authorized by Congress in the fourth quarter. This assures production of MDC's wide-cabin family of aircraft into 1987, assuming annual funding of the KC-10 program by Congress.

As of 31 December 1982, DC-10 program status included three firm orders, no conditional orders and no options, and 363 deliveries for a total of 366 aircraft.

MD-100: For the past two years MDC has been defining configurations and assessing market potential for an advanced wide-cabin tri-jet to be introduced in the mid-1980s. This aircraft has been named the MD-100, the first use of a new designation system for MDC's future commercial aircraft.

The MD-100 features higher fuel efficiency and lower direct operating costs for moving medium and high capacity payloads over long-range routes. It is being presented to potential customers, but has not been committed to production.

SPACE SYSTEMS AND MISSILES

TOMAHAWK CRUISE MISSILE: Under a contract received from the U.S. Defense Department's Joint Cruise Missile Project, MDC has become a manufacturer of the entire Tomahawk cruise missile.

Previously, MDC built all Tomahawk guidance systems and General Dynamics all of the missile airframes. Both companies are now building guidance systems and airframes and will compete for contracts each fiscal year.

MDC broke ground in late 1982 on a $20 million expansion of its Titusville, Fla., facility, where the Tomahawk will be manufactured. The first MDC Tomahawk is expected to come off the production line in early 1984 in a program with multi-billion-dollar sales potential.

HARPOON: Harpoon is fast becoming the most widely used anti-ship weapon system in the U.S. Navy. It is currently operational on 197 ships and submarines and 147 airplanes. In addition, 12 allied nations are deploying Harpoon on a total of 98 naval vessels and 24 airplanes.

Flight tests of an advanced Harpoon were completed in late 1982 and production is scheduled to begin in 1983. This new Harpoon, which flies at lower altitudes than its predecessor, will provide longer range, better survivability, and increased strike effectiveness.

Harpoon is under consideration by the U.S. Air Force for deployment on the B-52 bomber. Test launches are planned for early 1983.

At the end of 1982, the twelfth year of the program, 3,056 Harpoons had been ordered and more than 2,440 delivered.

DELTA: MDC's Delta space launch vehicle in 1982 extended its string of consecutive successful missions to 31, more than any other large multi-stage launch system. Seven Deltas were launched during the year, one from California and six from Florida.

The new Delta 3920, latest of more than a dozen improved versions, boosted the 4,300-pound Landsat-4 Earth Resources Satellite into polar orbit in July. It was one of the heaviest payloads ever launched by a Delta.

Eight Delta launches are scheduled for 1983. Because the space shuttle has demonstrated operational capability, NASA does not expect to place additional Delta orders after 1983.

PAM: Five Deltas used MDC's commercially developed Payload Assist Module (PAM) as third stages in 1982, bringing the Delta/PAM flight total to eight.

Launch of Satellite Business Systems' SBS-3 and Telesat Canada's Anik C-3 by PAMs from the space shuttle's Columbia orbiter marked the first time a manned vehicle had been involved in the delivery of large satellites to geosynchronous orbit.

MDC is offering a new configuration, PAM-DII, for use in the second half of the 1980s. The first

1. Computer-aided design.
2. MCAUTO computer facilities.
3. Microdata systems.
4. MCAUTO Health Services.

PAM-DII customer is GTE, which has booked space aboard the shuttle in July 1985.

More than 50 potential PAM missions have been identified.

SPACE SHUTTLE: Under a $51 million subcontract, MDC began work in 1982 on the third increment of aft skirt hardware for the huge, reusable solid rockets which boost space shuttles into orbit. Aft skirts from the first three shuttle launches were refurbished by MDC and returned to NASA for use on future launches.

The shuttle aft propulsion subsystem developed by MDC performed successfully on the three flights of 1982. Aft propulsion pods for the orbiter Challenger, scheduled for first flight early in 1983, were delivered in 1982.

Late in December, MDC delivered the first of two crew transfer tunnels which will be used by shuttle crew members to reach the European Space Agency's Spacelab, which begins operations in September 1983. In Spacelab, developed with technical assistance from MDC, scientists will conduct experiments in the cargo bay of the shuttle.

All three divisions of McDonnell Douglas Technical Services Company, an MDC subsidiary, were involved in 1982's three shuttle missions. The Houston division provided flight operations planning, crew procedures and flight data file development, and mission support for orbiter crews during flight. The Kennedy Space Center division, sole contractor for integration of cargo with the shuttle, was selected as integrator for future Air Force cargo as well. The Huntsville, Ala., division developed hardware for the scientific pallet on the third shuttle mission and continued preparation for the 1983 launch of the first manned Spacelab.

BALLISTIC MISSILE DEFENSE: MDC is prime contractor for design and development of the U.S. Army's Sentry ballistic missile defense system. Recent decisions have reduced work on system development and have increased research on advanced BMD systems. MDC expects to continue working on the Sentry program, although at a slower pace.

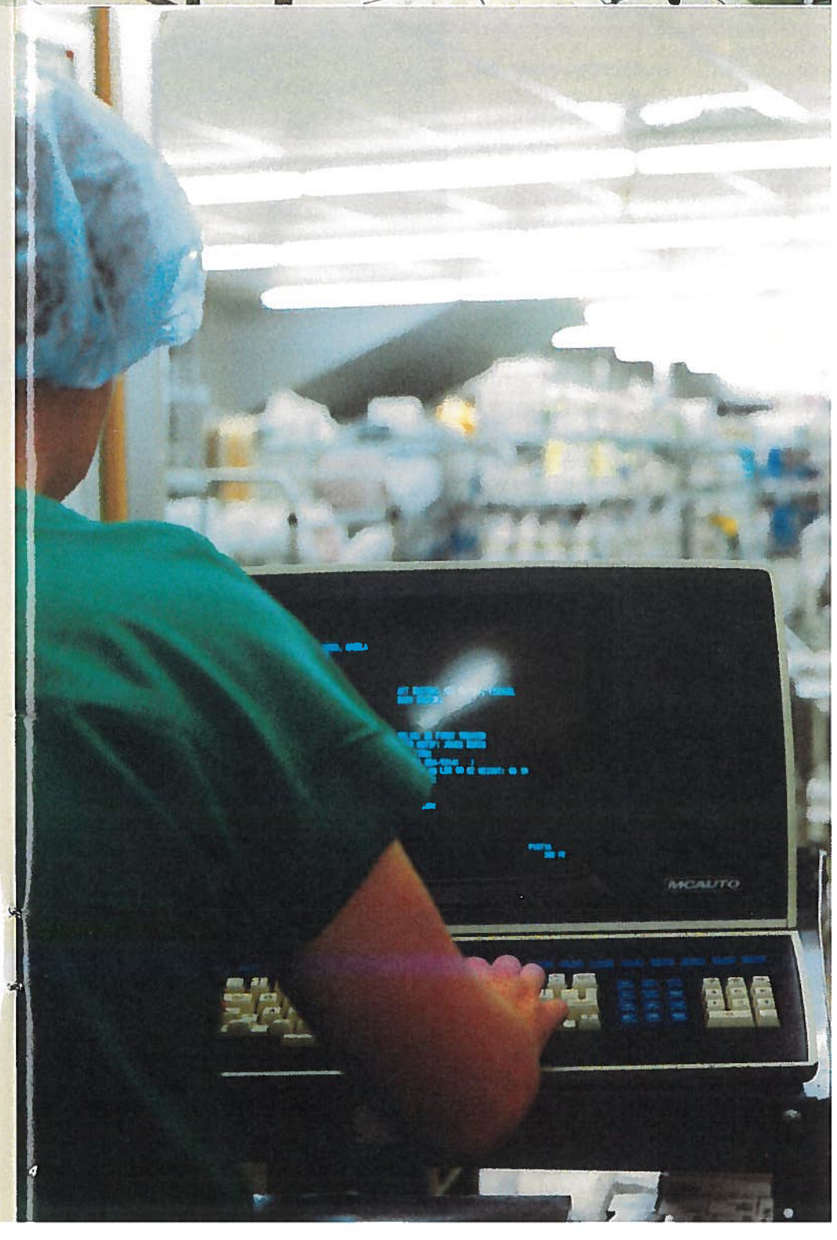
MAST MOUNTED SIGHT: In 1982 MDC completed for the U.S. Army a design review of MDC's Mast Mounted Sight for helicopters as part of a 41-month full-scale engineering development effort.

The new sight uses a stabilization technique which virtually isolates it from helicopter vibration and provides sharp, jitter-free, day/night pictures of targets in a battlefield environment of haze and smoke.

SMAW: The U.S. Marine Corps in 1982 awarded MDC a development contract for the Shoulder Launched Multi-purpose Assault Weapon (SMAW). MDC will adapt an existing Israeli system, called the B-300, with a new warhead developed by the U.S. Navy. Modification of an existing system saves the Marine Corps both development time and costs, and MDC has exclusive rights to manufacture the system in the United States. The Marine Corps may purchase 3,400 launchers and 400,000 rounds of ammunition for a potential program value of more than $200 million.

EOS: MDC's EOS project, which uses a process called continuous flow electrophoresis to separate materials in solution by subjecting them to an electrical field, was successfully tested aboard the space shuttle in June 1982. It proved, in the gravity-free environment of space, that it can separate biological materials with far more efficiency than can be achieved through similar operations on earth. This could lead, by the late 1980s, to space-based commercial processing required for the manufacture of a number of new and improved pharmaceuticals.

The next test of the project is to be conducted on the shuttle in 1983. This test is intended to verify that the EOS device can achieve much higher purity levels in the materials it produces than are achievable on earth.



INFORMATION SYSTEMS

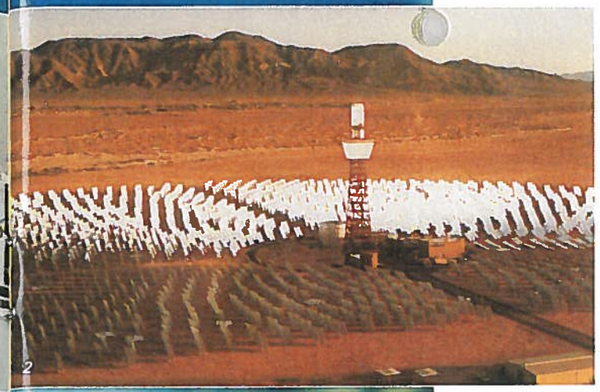
DATA PROCESSING SERVICES: Commercial revenues of McDonnell Douglas Automation Company (MCAUTO®) were $328 million in 1982, 45% higher than in 1981.

Among product lines achieving rapid growth was Unigraphics®, MCAUTO's computer-aided design and manufacturing (CAD/CAM) system, which recorded more than $40 million in sales, about double those of 1981.

Sales of computer services to health care institutions provided $133 million in commercial revenues in 1982. Services to federal, state and local government agencies provided $49 million. MCAUTO processes Medicaid claims for the State of New York, and in 1982 inaugurated for the State of Arizona the first of the new Health Care Cost Containment Systems.

MCAUTO, which now serves one out of every six hospitals in the United States, in 1982 announced two new products for this market. RxCom is a stand-alone pharmacy management system, and Lab-Com+ provides a communications link with nursing units, critical care areas, admissions, and other hospital areas. In May, MCAUTO was chosen by the Department of Health of the Republic of Ireland to provide information systems to its hospitals.

MCAUTO made significant CAD/CAM sales in the United Kingdom, Austria and West Germany, and its first sales in India and France.



1. VITEK test kits.
2. Solar One power plant.
3. Flight simulation.

OTHER DIVERSIFICATION

DATA PROCESSING SYSTEMS: Microdata Corporation, a wholly owned MDC subsidiary, had 1982 revenues of $148 million, a 23% increase over 1981.

The company further refined and enhanced its REALITY® small business computer system, first introduced in 1974, and shipped 939 systems in 1982. This raised the total number of units installed to 6,997. Among new REALITY purchasers were Marriott Corporation and BMW of North America.

In the first full year of production of its SEQUEL™ large business system, Microdata shipped 148 units. Customers included the University of Chicago, Southern Telephone, and Chemical Bank.

Microdata's United Kingdom subsidiary, CMC Ltd., had 1982 revenues of $61.6 million, a 37% increase over 1981. CMC personnel increased from 786 to 983, and construction was started on a new $12 million manufacturing and office facility outside London.

Selected assets and employees of computer companies in Switzerland and West Germany were acquired and new marketing organizations were established in those countries.

At year end, Microdata had 44 sales and marketing offices worldwide. Subsidiaries, distributors, and independent dealers have extended the company's market penetration to more than 50 countries.

SOLAR ENERGY: Solar One, a 10-megawatt pilot solar power plant in California's Mojave Desert, in 1982 began generating power for the Southern California Edison power grid. The plant is based on a concept developed for the U.S. Department of Energy by MDC, which served as design integrator.

MDC has proposed to Southern California Edison an additional plant, Solar 100, with a 100-megawatt capacity.

COMPUTER-BASED TRAINING: MDC introduced during 1982 a second generation computer-based, advanced, individualized instruction system designated AIS II. The system won six sales competitions valued at $10 million, including a contract from the Canadian government for its CF-18 maintenance training program.

VISUAL SIMULATION SYSTEMS: New-generation VITAL V and VI were introduced in 1982, providing for the first time textured scenes for simulation systems at modest cost. Effectiveness of the new systems, particularly in the near-ground environment, has been validated in commercial operation at Pacific Southwest Airlines' training center.

Other sales of VITAL included a 10-system, $5 million order from Flight Safety International, and Frontier Airlines' purchase of the first VITAL custom modular optics display system.

VITAL held its share of a commercial market depressed by airline financial problems and maintained its very strong position in the military market worldwide. Three countries signed contracts amounting to $4.5 million for F-16 simulators, bringing to seven the number of countries using VITAL to train F-16 pilots.

LABORATORY TESTING: Revenues from MDC's VITEK subsidiary rose by 57% over 1981's total. The number of AutoMicrobic Systems (AMS™) in use by medical laboratories increased 52% to a total of approximately 250 as of the end of 1982. Shipments of AMS test kits, used in the automated identification of pathogens and appropriate antibiotics, increased 65%.

MICROELECTRONICS CENTER: Construction began in St. Louis on a $30 million McDonnell Douglas Microelectronics Center, which will produce custom-designed microcircuits, infrared detectors and hybrids for use in MDC products. The 192,000-square-foot structure is scheduled for completion in January 1984.

COMMERCIAL FINANCING AND LEASING

McDonnell Douglas Finance Corporation earnings increased to $16 million in 1982 compared with $13 million in 1981.

Medical equipment leasing accounted for $12.9 million of MDFC's commercial and industrial volume. In maintenance leasing the company completed arrangements for acquiring, effective 1 January 1983, the full-service truck leasing business of Brind Leasing Corporation, with annual revenues of about $26 million.

Total volume of MDFC financing activity was $220 million, 70% of which was outside the commercial aircraft field. These figures compare with $274 million and 46% in 1981.

MDFC achieved a major milestone in 1982 when, just nine years after launching its commercial and industrial financing activities, more than half of its portfolio value was in receivables and leased equipment not related to MDC aircraft. This 53% of portfolio or $435 million as of 31 December compared with 47% or $335 million at the end of 1981.

At the end of 1982, equipment leased by MDFC included MDC aircraft carried at $252 million. Leases of major equipment such as trucks, railroad rolling stock, computer-related equipment and others, amounted to $360 million.

A separate MDFC annual report is available upon request. A condensed financial report on MDFC is presented on page 24.

MDC IS PEOPLE

MDC people are committed to quality. This commitment is expressed in excellent workmanship, excellent products, and world leadership in many branches of technology.

Today our people have new outlets for their commitment to quality — small groups in which they can share ideas on how to do things better. Those groups are called, appropriately, "quality circles."

Quality circles were introduced at MDC about two years ago, and since then they've been spreading rapidly throughout our family of companies. By the end of 1982 there were 291 of them, each with approximately 10 volunteer members helping each other to build an even more productive, more creative working environment in which every individual has a real opportunity to contribute.

MDC sponsors many educational programs for its employees and others. In 1982, 8,513 employees throughout the corporation enrolled in classes under company-supported Voluntary Improvement Programs, and 39,403 completed company-time training courses.

At year-end, 65 students were enrolled in the company's Develop Engineering Students Program, through which talented St. Louis area high school students are encouraged to enter the fields of engineering and computer science. Fifteen students who completed this program in 1982 are now in college and are candidates for MDC's four-year Cooperative Education Program, which currently has 401 participants enrolled at 26 colleges and universities.

Through the MDC Scholarship Program, 153 sons and daughters of personnel received a total of $231,841 in grants for four-year college programs in 1982.

The McDonnell Douglas Foundation contributed $978,312 to colleges and universities. The foundation also contributed $141,314 to match employees' gifts to colleges and universities.

In 1982, MDC started an Engineering and Research Fellows program designed to recognize extraordinary professional achievements by individuals throughout the corporation. Ten Fellows have so far been honored with sterling silver founders' medallions and $5,000 bonus awards. To qualify as Fellows, candidates must display outstanding and sustained technical performance in a highly specialized field.

MDC continued to support local and national organizations working to enhance the employment capabilities of minorities and women. The corporation also participated in activities designed to encourage members of minorities, women, and handicapped persons and match them with employment opportunities.

In California, MDC supports a Youth Motivation Program, which exposes young people to opportunities in industry and helps them set and achieve goals. Fifty-six MDC Youth Motivation Task Force volunteers from Long Beach and Torrance participated in the 1981-82 Program. They made scores of visits to junior high schools to talk with students about the importance of completing school.

Each year, the corporation develops affirmative action plans for its major components. Included in these plans are hiring and promotion goals for minorities and women; in 1982 MDC met or exceeded these goals. The company also developed 1982 affirmative action plans for recruiting, employing, and advancing handicapped individuals and continued to make extensive physical renovations to accommodate handicapped individuals at all facilities.

The company also donated usable surplus equipment to workshops for handicapped people, churches, technical schools, colleges, universities, and other non-profit organizations.

In 1982, MDC awarded 5,965 contracts worth $23.5 million to businesses owned and operated by minorities or women or employing handicapped persons.

MDC hired 1,486 military veterans in 1982.

The Employee Assistance Program, established in March 1970, continues to aid employees and dependents experiencing personal problems such as alcoholism or drug abuse. A cumulative total of 7,811 employees and 1,156 family members had sought assistance and had been referred to sources of treatment by the end of 1982.

MDC personnel received $2,087.4 million in wages and salaries in 1982. They donated almost $4.2 million through corporatewide personnel charity plans to 123 United Way organizations. In addition, the McDonnell Douglas Foundation contributed $826,035 to United Way organizations.

In their sixth annual Operation Helping Hand, company personnel in St. Louis donated approximately 8,500 pounds of food to the Food Crisis Network for the assistance of needy families. Much of the food was provided to Missouri families who were victims of the December floods.

Since 1963, on their own time, Douglas Aircraft Company Management Club members and other volunteers have been collecting and distributing gifts to school children on a Navajo reservation in northern Arizona. Called Project Love, this activity provided gifts and donations amounting to more than $102,000 for approximately 8,200 Navajo children in 1982.

During 1982, as a result of the corporation's blood drive program, 10,555 units of blood were contributed to the American Red Cross by MDC employees.

Cash awards presented in the company's Employee Suggestion Program exceeded $750,000 in 1982. These suggestions saved MDC more than $8.5 million.

Ridesharing employees enjoy preferred parking and lower transportation costs. Our computer matching service has helped expand the number of ridesharing employees in the St. Louis area. In 1982, 208 company-owned vehicles transported more than 2,800 employees daily, giving MDC the 8th largest company-sponsored vanpool program in the country.

More than 17,000 MDC employees participated in nearly one hundred company-sponsored sports, recreation, and educational enrichment activities and organizations in 1982.

In 1982, 3,145 men and women retired; 33,076 persons now receive MDC retirement benefits. Pension payments to retirees totaled $91 million. The company paid $180.1 million in medical and health care expenses and disability income and $12.4 million in death benefits during the year.

MDC paid $870.1 million (including $144.3 million in taxes for government retirement and unemployment programs) for benefits which included voluntary savings programs and layoff benefits; vacation, holiday, and sick leave pay; military reserve duty, bereavement, and jury duty pay.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following should be read in conjunction with the consolidated financial statements, particularly the Selected Financial Data by Industry Segments presented on page 28.

FINANCIAL CONDITION

MDC's capital at the end of 1982 totalled $1,923.6 million, $1,819.6 million in shareholders' equity and $104.0 million in debt.

MDC had short-term investments of $256.9 million at the end of 1982 versus short-term bank borrowings of $244.0 million at the end of 1981. This improvement was due principally to increased progress payments for CF-18 and KC-10 aircraft, deferred income taxes and repayment of advances by MDFC.

MDC and its financial subsidiaries are leasing aircraft to, and holding or guaranteeing securities of, several airlines reported to be in financial difficulties. Approximately $49 million was paid in 1982 on guarantees which became due as a result of the bankruptcy of Laker Airlines.

Commitments to produce and lease 35 Super 80 jetliners in 1983 and 1984 will require an initial investment of about $700 million, of which our Super 80 equipment suppliers are expected to provide up to a fourth. Various options for funding part of all of the remainder are under consideration.

MDC had over $250 million in marketable securities at the end of 1982 and was maintaining $550 million in unused lines of credit with 18 banks. Internal cash flows and borrowing capacity are expected to be adequate to meet all commitments for capital or other expenditures including any additional investment required for the Super 80 lease agreements.

RESULTS OF OPERATIONS

Sales and other income in 1982 was about 1% below the comparable figure for 1981 (when a 21% growth over 1980's total was achieved). Sales increased substantially in 1982 in all segments except commercial aircraft, where, as expected, deliveries declined significantly.

Operating earnings were 23% higher in 1982 than in 1981. The much larger increase achieved in 1981 represented a recovery from a depressed 1980 base. Factors affecting 1982 operating results are discussed under the segment headings that follow.

Net earnings increased 22% in both 1982 and 1981. Operations provided 85% of the 1982 increase. A decline in interest expense also contributed to the increase, but was partially offset by a decrease in non-operating income and tax credits.

Military Aircraft. Sales and other income increased 11% in 1982 and 35% in 1981. The 1982 increase came principally from the F-18 Hornet program; other programs were relatively stable. In 1981 sales increased in all major programs: The F-15, F-18, AV-8B and KC-10.

Earnings were nearly 6% higher in 1982 than in 1981 despite a reduction in the earnings margin. The low margin on the F-18 program continued to be the principal reason military aircraft earnings increased at a lower rate than sales.

Commercial Aircraft. Sales and other income decreased 39% in 1982, compared with a 9% increase in 1981. Five DC-10s and 42 DC-9s were delivered in 1982, 19 DC-10s and 77 DC-9s in 1981. The decline in DC-9 deliveries occurred in the second half of 1982.

The loss from operations was substantially less in 1982 than in 1981. Provisions for probable losses from commercial aircraft financing transactions were made in both years: $30 million in 1982, $50 million in 1981. Excluding these provisions, this segment's operating loss was cut 55% despite the sales decline. Cost reductions and productivity gains contributed significantly to the improvement.

Short-term leasing of Super 80s to American Airlines and Trans World Airlines will begin in 1983. This is a change from MDC's past practice, and it involves the risk that aircraft could be returned at times when economic conditions make it difficult to sell or release them to other airlines.

These leases, plus an Alitalia order for 30 Super 80s and a multi-year contract for 44 KC-10s (the military tanker-cargo version of the DC-10), have reduced this segment's "at risk" inventories. However, three new and three used DC-10s remain unsold.

Space Systems and Missiles. Sales and other income increased 37% in 1982 and 14% in 1981. Earnings from operations increased 37% and 28% in these two years. The Harpoon, cruise missile, and ballistic missile defense programs all contributed to the sales and earnings gains.

Other Segments. Sales and other income increased 33% in 1982 and 20% in 1981. MCAUTO was the primary contributor to the 1982 increase, although Microdata and VITEK also reported significant growth. The decrease in earnings also was attributable to MCAUTO — specifically to higher marketing costs related to new products and start-up costs for overseas operations.

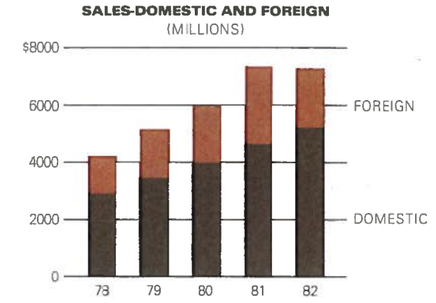
The 1982 operating losses of Microdata and VITEK were about half those of 1981.

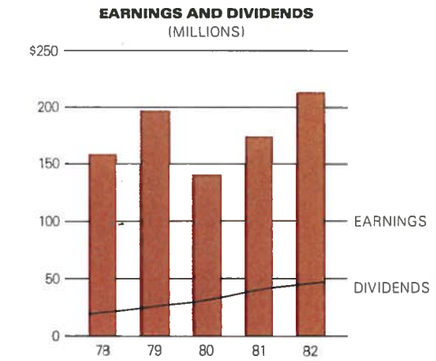
Non-Operating Income and Expense. The 1982 earnings of MDFC, the highest in its fourteen-year history, reflected strong growth and the easing of interest rates on borrowed funds.

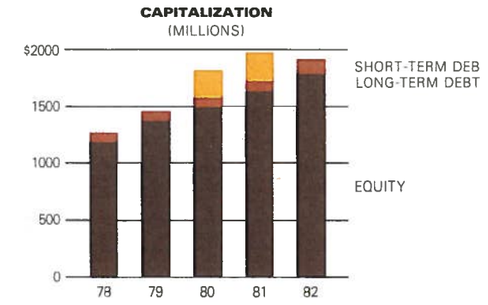
MDC's non-operating income was less in 1982 than in 1981 because of lower interest and dividend income. Interest expense was significantly less as both interest rates and the level of borrowings declined. The income tax provision was at a higher effective rate in 1982, chiefly because of less DISC income.

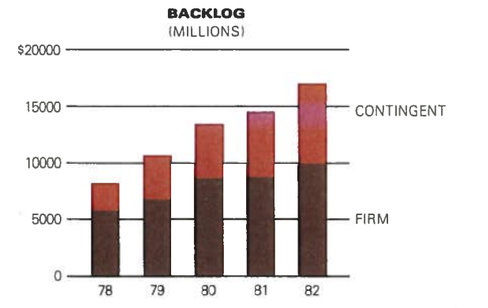
INFLATION

The discussion of the effects of inflation and changing prices on MDC, together with related supplementary financial data, is presented on page 29.









CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

	31 December *Dollar amounts in millions*	1982	1981
Current Assets	Cash and time deposits	$ 29.7	$ 15.4
	Short-term investments	256.9	
	Accounts and notes receivable		
	Government	314.7	283.8
	Commercial	205.1	194.3
	Recoverable income taxes	20.8	23.0
		540.6	501.1
	Contracts in process and inventories		
	Government contracts in process	3,121.7	1,832.9
	Commercial products in process	1,312.3	1,332.2
	Materials and spare parts	1,096.4	1,007.2
	Progress payments to subcontractors	776.7	552.2
	Less applicable progress payments	(3,871.1)	(2,236.1)
		2,436.0	2,488.4
	Prepaid expenses	15.6	9.3
	Total Current Assets	3,278.8	3,014.2
Facilities	Land	54.7	50.2
	Buildings and fixtures	578.9	509.2
	Machinery and equipment	1,082.0	922.0
	Less accumulated depreciation	(886.2)	(754.0)
		829.4	727.4
Other Assets	Investment in and advances to MDFC	222.9	324.3
	Rental equipment and parts	117.1	103.7
	Deferred charges	35.8	40.4
	Other	137.8	154.2
		513.6	622.6
	Total Assets	$4,621.8	$4,364.2

See accompanying notes to consolidated financial statements

LIABILITIES AND SHAREHOLDERS' EQUITY

	31 December *Dollar amounts in millions*	1982	1981
Current Liabilities	Notes payable to banks	$	$ 244.0
	Accounts and drafts payable	635.5	612.2
	Accrued expenses	138.7	118.3
	Employee compensation	178.1	164.6
	Income taxes, principally deferred	682.7	614.1
	Estimated modification, completion, and other contract adjustments	1,063.2	863.3
	Current maturities of long-term debt	33.7	22.9
	Total Current Liabilities	2,731.9	2,639.4
Long-Term Debt	4¾% Convertible subordinated debentures	27.7	32.7
	Other	42.6	38.6
		70.3	71.3
Shareholders' Equity	Preferred Stock, $1.00 par value:		
	Shares authorized: 10,000,000		
	Shares issued: None		
	Common Stock, $1.00 par value:		
	Shares authorized: 60,000,000		
	Shares issued: 39,333,898	39.3	39.3
	Capital in excess of par value	362.4	360.0
	Earnings retained for growth	1,443.6	1,276.5
	Translation of foreign currency statements	(5.0)	(3.2)
	Less cost of treasury shares: 1982, 812,170 shares; 1981, 820,028 shares	(20.7)	(19.1)
		1,819.6	1,653.5
	Total Liabilities and Shareholders' Equity	$4,621.8	$4,364.2

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Years Ended 31 December *Dollar amounts in millions*	1982	1981	1980
Common Stock	Beginning balance	$ 39.3	$ 39.3	$ 38.7
	Stock options exercised - 219,896 shares issued			.2
	Conversion of debentures - 389,358 shares issued			.4
		39.3	39.3	39.3
Capital in Excess of Par Value	Beginning balance	360.0	346.7	325.8
	Stock options exercised	.9	3.1	6.7
	Conversion of debentures	.8	7.7	11.6
	Incentive compensation awards paid	.7	2.5	2.6
		362.4	360.0	346.7
Earnings Retained for Growth	Beginning balance	1,276.5	1,141.1	1,030.9
	Net earnings	214.7	176.6	144.6
	Cash dividends declared	(47.6)	(41.2)	(34.4)
		1,443.6	1,276.5	1,141.1
Translation of Foreign Currency Statements	Beginning balance	(3.2)	.2	
	Effect of fluctuations in foreign exchange rates	(1.8)	(3.4)	
		(5.0)	(3.2)	
Treasury Shares	Beginning balance	(19.1)	(14.6)	(17.2)
	Purchased - 1982, 413,592 shares; 1981, 526,524 shares	(12.1)	(15.3)	
	Conversion of debentures - 1982, 164,460 shares; 1981, 472,486 shares; and 1980, 6,330 shares	4.2	6.8	.1
	Stock options exercised - 1982, 158,117 shares; 1981, 174,562 shares; and 1980, 38,530 shares	3.9	2.6	.6
	Incentive compensation awards - 1982, 98,873 shares; 1981, 96,884 shares; and 1980, 137,281 shares	2.4	1.4	1.9
		(20.7)	(19.1)	(14.6)
	Shareholders' Equity	$1,819.6	$1,653.5	$1,512.5

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Years Ended 31 December *Dollar amounts in millions*	1982	1981	1980
Source of Funds	From operations:			
	Net earnings	$214.7	$176.6	$ 144.6
	Earnings retained by MDFC	(16.1)	(13.4)	(1.3)
	Depreciation of facilities	147.2	123.0	91.3
	Depreciation of rental equipment	25.9	18.8	8.3
	Stock issued to employees	3.1	3.9	4.5
	Other	7.6	6.6	4.1
		382.4	315.5	251.5
	Facilities sold	14.3	8.2	1.5
	Advances repaid by MDFC	117.5		15.9
	Rental equipment and parts sold	17.8	7.5	11.0
	Contracts in process and inventories, net of progress payments	52.4		
	Other current liabilities	325.7	310.0	153.9
	Long-term borrowings — net	14.8	25.1	1.9
	Proceeds of stock options exercised by employees	4.8	5.7	7.5
	Miscellaneous	19.6	2.5	.4
		949.3	674.5	443.6
Use of Funds	Current receivables	39.5	18.7	86.4
	Contracts in process and inventories, net of progress payments		72.7	568.7
	Facilities acquired	261.9	233.8	267.4
	Advances to MDFC		92.7	
	Rental equipment and parts	57.1	100.1	16.2
	Other investments		58.3	15.6
	Cash dividends declared	47.6	41.2	34.4
	Treasury shares purchased	12.1	15.3	
	Miscellaneous	15.9	40.4	11.9
		434.1	673.2	1,000.6
Net Change	Net change in cash, short-term investments and short-term borrowings	$515.2	$ 1.3	$ (557.0)
Analysis of Net Change	Increase (decrease) in cash and short-term investments	$271.2	$ 4.0	$ (315.7)
	Increase (decrease) in short-term borrowings	(244.0)	2.7	241.3
	Net Change	$515.2	$ 1.3	$ (557.0)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF EARNINGS

	Years Ended 31 December *Dollar amounts in millions, except share data*	1982	1981	1980
Income	Sales	$7,331.3	$7,384.9	$6,066.3
	Other income	120.9	116.4	131.7
		7,452.2	7,501.3	6,198.0
Costs and Expenses	Cost of products and services	6,084.1	6,296.4	5,240.9
	Research and development	254.1	215.7	199.0
	Administrative and general	762.4	687.6	588.7
	Interest and debt expense	26.7	69.8	11.7
	Income taxes	110.2	55.2	13.1
		7,237.5	7,324.7	6,053.4
Earnings	Net earnings	$ 214.7	$ 176.6	$ 144.6
	Earnings per share	$5.44	$4.44	$3.65

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 1982

Dollar amounts in millions, except share data

SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation. The consolidated financial statements include the accounts of McDonnell Douglas Corporation (MDC) and all of its significant subsidiaries except McDonnell Douglas Finance Corporation (MDFC), which is accounted for on the equity basis. In consolidation significant intercompany items and transactions are eliminated.

Long-Term Notes Receivable. Long-term notes receivable, acquired by MDC primarily from sales of commercial aircraft, are recorded at their fair market value. Most notes are transferred to MDFC or its export finance subsidiary at that value.

Long-Term Contracts. In accordance with industry practice, long-term Government contracts and commercial aircraft programs are classified as current assets or liabilities in the balance sheet, even though a substantial portion is not expected to be realized within one year.

Adjustments of costs and earnings may be made during and after completion of such long-term contracts; therefore, earnings recorded in the current year may include adjustments applicable to sales recorded in prior years.

Government Contracts. Government contracts are primarily accounted for on a percentage-of-completion method wherein sales are recorded at their estimated contract price as the work is performed. Under this method, all costs (including general and administrative expenses) are charged to Costs and Expenses as incurred and the recorded sales values (equal to incurred costs plus estimated earnings) are carried in the account, Government contracts in process. At the time the item is completed and accepted by the customer, the sales value of the item is transferred to accounts receivable.

Certain contracts contain incentive provisions which provide increased or decreased earnings based upon performance in relation to established targets. Incentives based upon cost performance are recorded currently and other incentives are recorded when the amounts can reasonably be determined.

Title to certain items, included in the captions of Materials and Progress payments to subcontractors, is vested in the U.S. Government by reason of progress payment provisions of related contracts.

Commercial Programs. Commercial products in process (including military versions of commercial aircraft) are stated on the basis of production and tooling costs incurred less cost allocated to delivered items, reduced (where applicable) to realizable market after giving effect to the estimated costs of completion.

Cost of sales for commercial and military DC-9 aircraft is determined on a specific-unit cost method. Cost of sales of the DC-10 aircraft program, including KC-10 aircraft, is determined on a program-average cost method. Inasmuch as the DC-10 program involves several models with differing sales prices and costs and the contracts contain escalation clauses based upon the future cost of materials and labor, the cost of sales for a particular aircraft is computed at the percentage of the sales price that the total of the estimated tooling and production costs for the entire program bears to the total estimated sales price for all aircraft in the program.

Materials and spare parts are stated at the lower of cost (priced generally on a moving average method) or market.

Foreign Currency Translation. The U.S. dollar is deemed to be the functional currency of MDC's principal foreign operations and, as such, does not give rise to translation adjustments upon consolidation. Foreign currency statements of other subsidiaries are translated to U.S. dollars for consolidation and the translation adjustment resulting from the fluctuation in the exchange rate for that currency from the previous year is carried directly to shareholders' equity under a separate caption.

Income Taxes. United States and foreign income taxes are computed at current tax rates on reported earnings, less investment and other tax credits. Adjustments to such tax computations are made currently for all items whose income tax treatment creates a permanent difference between taxable income and reported income, but are not made for items that create only timing differences between fiscal periods.

The investment tax credits arising from commercial aircraft tooling and leased aircraft are deferred and amortized as reductions of income tax provisions, and all other credits are recorded in the current period.

The undistributed earnings of foreign subsidiaries are considered to be permanently invested; accordingly, no provisions are made for taxes which would become payable upon the distribution of such earnings as a dividend to MDC. To the extent that DISC (Domestic International Sales Corporation, as defined in Section 992 of the Internal Revenue Code) income is expected to be reinvested and remain tax exempt, no provisions for income taxes thereon are made. MDC files a consolidated return for federal and certain state income taxes, and dividends from subsidiaries included therein are not subject to income tax.

Facilities. Facilities are carried at cost and depreciated over the useful lives of the various classes of properties, using primarily accelerated methods.

Earnings Per Share. Earnings per share computations are based upon (i) the weighted average of common stock and common stock equivalents outstanding during the period and (ii) net earnings after adjustment for interest and debt expense on the common stock equivalents less applicable income taxes. Common stock equivalents include the shares reserved for conversion of the 4¾% Convertible Subordinated Debentures and the net increase in shares from exercise of stock options, assuming all dilutive options had been exercised and the proceeds used to purchase other shares. For primary earnings per share, purchases of shares with option proceeds were assumed to have been made at the average market price and, for fully-diluted earnings per share, at the higher of the year-end or average market price; however, both primary and fully-diluted computations have resulted in the same earnings per share.

BASIS OF PRESENTATION

Certain presentations in the 1981 financial statements have been changed in the 1982 financial statements. Selected financial data by industry segments remains an integral part of the financial statements, but are presented in a separate schedule rather than in a footnote. The statement of changes in financial position presents the net change in cash, short-term investments and short-term borrowings rather than the change in working capital. The statement of financial position presents 1981 and 1982 amounts relating to contracts with foreign governments, particularly the Canadian CF-18 contract, aggregated with comparable U.S. Government amounts.

GOVERNMENT CONTRACTS

Contractual authority to supply additional items, or to change the work scope of a contract, prior to reaching final agreement on price is a frequent and normal occurrence in procurements by the U.S. Government, as the contracts contain standard provisions for assuring that the contractor will receive an equitable price in the unusual event a mutually satisfactory price cannot be subsequently negotiated with the Contracting Officer.

Included in Accounts receivable was $73.1 million at 31 December 1982 and $67.9 million at 31 December 1981 representing the estimated sales price for items delivered and other work performed, which was not billable because the negotiated price information or documents necessary to invoice under the contract had not been received. Approximately $11.7 million of the 1982 amount is expected to be collected after one year. In addition, a material portion of the Government contracts in process account similarly represented work performed before the pricing, negotiation and contract documentation cycle had been completed, but the aggregate amount thereof was not identifiable as such in the accounting records.

No material amounts were included in Receivables or Government contracts in process representing retainage or for which appropriated funds were not available or the item was otherwise in controversy, other than in respect to normal price negotiations.

COMMERCIAL AIRCRAFT PROGRAMS

At 31 December 1982, the backlog of firm orders for undelivered DC-9 commercial transport aircraft was 50, compared to 43 a year earlier. In addition, MDC has agreed to produce 35 DC-9-80s for two domestic airlines under nominal five-year leases which include cancellation privileges and penalties and options for renewals for up to 17 more years. Deliveries under these orders and leases are scheduled as follows: 16 orders and 29 leases in 1983; 16 orders and 6 leases in 1984; 10 orders in 1985 and 8 orders in 1986.

No orders for commercial DC-10s were received in 1982 and the three remaining orders are scheduled for delivery in early 1983. At 31 December 1982, the accounts included the costs to produce three DC-10 aircraft for which no customer had placed an order and three used DC-10 aircraft repurchased from a customer.

A multi-year government contract was received late in 1982 for an additional 44 KC-10 aircraft, the cargo-tanker version of the DC-10. The backlog of 48 KC-10 aircraft at the end of the year was scheduled for delivery as follows: 8 in 1983; 8 in 1984; 11 in 1985; 12 in 1986 and 9 in 1987.

INVESTMENT IN FINANCE SUBSIDIARY

The investment in MDFC was represented by a capital investment of $80.0 million and earnings retained for growth of $52.9 million at 31 December 1982 and $44.8 million at 31 December 1981. The condensed financial data presented below have been summarized from the audited consolidated financial statements of MDFC:

31 DECEMBER	1982	1981
ASSETS		
Cash and short-term investments	$ 24.8	$ 5.8
Notes and leases receivable - net	720.3	603.5
Accounts with MDC	47.6	18.9
Investment in operating leases	78.7	92.3
Other assets	11.2	5.0
Total	$882.6	$725.5
LIABILITIES AND EQUITY		
Short-term notes payable:		
MDC	$ 20.0	$ 99.5
Other	125.1	98.4
Accounts payable and accrued expenses	26.4	11.3
Deferred income tax items	203.5	163.4
Long-term debt		
Senior — MDC	70.0	100.0
Senior — Other	274.7	128.1
Subordinated notes payable	30.0	
Shareholder's equity	132.9	124.8
Total	$882.6	$725.5

YEARS ENDED 31 DECEMBER	1982	1981	1980
Operating income	$94.8	$74.8	$70.3
Costs and expenses	76.6	59.6	41.4
Net earnings	16.1	13.4	15.3

CREDIT ARRANGEMENTS AND SHORT-TERM BORROWINGS

At 31 December 1982, MDC had open lines of credit of $500.0 million with seventeen U.S. banks. Under these lines of credit, borrowings bear interest at the individual bank's current prime rate or at money market rates. MDCAN had a similar agreement with a Canadian bank for an open line of credit of $50.0 million with borrowings guaranteed by MDC. No borrowings were outstanding at 31 December 1982.

As compensation for extending these lines of credit, MDC has agreed with each bank either to maintain unrestricted compensating balances, or to pay fees, at rates which vary with each bank's prime rate. For the year ended 31 December 1982, fees of $1.6 million and average deposits of approximately $1.2 million, plus float and other credits, were required to fulfill these requirements.

INCOME TAXES

Recoverable income taxes include the refund of prior years taxes from carrybacks of 1982 and 1981 operating losses and overpayments of estimated taxes.

Provisions for income taxes were at an effective rate of approximately 34% (24% in 1981 and 8% in 1980), which is less than the United States corporate rate of 46%, and the underlying causes of this difference and their effect on the income tax provisions are shown below:

YEARS ENDED 31 DECEMBER	1982	1981	1980
Pro forma income tax computed at U.S. corporate rates on pretax earnings	$149.5	$106.6	$ 72.5
State income taxes net of federal tax benefit	8.4	7.9	4.3
	157.9	114.5	76.8
Less:			
Tax effect of permanent differences:			
Net earnings of MDFC	7.4	6.2	7.0
DISC tax-exempt income	15.0	25.0	25.0
Other - net	5.5	2.2	(.4)
Tax rate differentials	(1.3)	5.9	12.5
Tax credits	21.1	20.0	19.6
	47.7	59.3	63.7
Income tax provision	$110.2	$ 55.2	$ 13.1

At 31 December 1982, the undistributed earnings of subsidiaries which would be taxable under the Internal Revenue Code if distributed, but for which no provision for income taxes have been provided, amounted to $290.5 million for DISCs and $62.8 million for foreign subsidiaries.

At 31 December 1982, expected reductions in future tax payments from carryforwards of approximately $45.3 million from the 1982 net operating loss and approximately $141.0 million from unused investment tax credits were reflected in the statements as reductions of the deferred tax liability, although $45.9 million of these investment tax credits have been deferred for amortization to income in future years. All of these tax carryforwards may be used to reduce taxes otherwise payable through 1992; if not used however, varying amounts of these credits will expire each year thereafter through 1998.

Taxable income is determined for all long-term contracts using the completed contract method, and the difference between the methods used to determine income from long-term contracts for tax reporting and the financial statements is treated as a timing difference and is the principal factor underlying the deferred tax liability. The tabulation below presents a summary of the factors (estimated for 1982 and restated for 1981 and 1980 to the amounts shown on the tax returns filed) that contributed to the differences between the income taxes payable for the year and provisions for such taxes.

YEARS ENDED 31 DECEMBER	1982	1981	1980
United States corporation income tax:			
Current taxes:			
Tax for consolidated group	$ 1.0	$ .7	$ .2
Net credit (charge) to unconsolidated subsidiaries for effect of including their operations in consolidated return	33.0	42.2	(2.5)
	34.0	42.9	(2.3)
Deferred taxes:			
Net effect of timing differences:			
Uncompleted contracts	157.2	139.1	134.3
Other inventory valuations	(72.8)	(102.4)	(102.5)
Tax credit carryovers	(37.6)	(17.1)	(25.3)
Provisions for losses	8.7	(23.0)	
Other	(2.3)	(.5)	(.1)
	53.2	(3.9)	6.4
Investment tax credits deferred, less amortization	1.5	(2.3)	(1.5)
	88.7	36.7	2.6
Deferred foreign income taxes	5.9	3.9	2.6
Deferred state income taxes	15.6	14.6	7.9
Income tax provision	$110.2	$ 55.2	$ 13.1

MDC's foreign operations which directly result in measurable foreign pretax earnings are not significant. The provision for foreign income taxes is based principally upon taxable intercompany sales and earnings that are eliminated in consolidation. These foreign operations consist of the manufacture of components used in domestic production, export marketing offices, and technical, training, and support services related to products exported or to foreign licensing agreements.

LONG-TERM DEBT

The non-current 4¾% Convertible Subordinated Debentures, due 1991, amounted to $27.7 million at 31 December 1982 ($32.7 million at 31 December 1981), and the Indenture provides for retirement of a minimum (on a cumulative basis) of $4.3 million of these Debentures annually through conversion, purchase and cancellation, or operation of a sinking fund. The Debentures are callable at any time (but at a premium to 30 June 1985) and are convertible at $30.61 per share into MDC Common Stock. The conversion price and shares reserved for conversion are subject to adjustment in accordance with antidilution provisions of the Indenture.

Other long-term debt aggregated $42.6 million at 31 December 1982 ($38.6 million at 31 December 1981) and consisted of various notes and other obligations, all of which mature by 2010. Facilities having a carrying value of $48.1 million were mortgaged or assigned as collateral for certain of these agreements.

The aggregate amounts of long-term debt maturing in the succeeding four years are as follows: 1984 - $2.3 million; 1985 - $1.9 million; 1986 - $11.9 million; 1987 - $25.3 million.

STOCK OPTIONS

Options to purchase MDC Common Stock have been granted to officers and employees at 100% of current market prices, pursuant to plans approved by shareholders. A summary of options for MDC Common Stock is shown below:

YEARS ENDED 31 DECEMBER	1982	1981
Granted or assumed:		
Number of shares	457,071	154,626
Price per share	$29	$44
Exercised:		
Number of shares	158,117	174,562
Price per share	$21 - $29	$17 - $29
31 DECEMBER	1982	1981
Outstanding:		
Number of shares	977,595	738,957
Price per share	$24 - $44	$21 - $44
Exercisable:		
Number of shares	491,314	533,931
Price per share	$24 - $44	$21 - $41

Stock appreciation rights for 96,438 shares were granted during 1982, at the then current market price of $29 3/8. These rights will become exercisable in 1983.

RESERVED COMMON SHARES

At 31 December 1982, authorized and unissued shares of MDC Common Stock have been reserved for conversions of the 4¾% Convertible Subordinated Debentures, 904,312 shares; contributions to the MDC Salaried Savings Plan, 757,070 shares; and stock options granted or authorized to be granted, 2,766,008 shares.

RETIREMENT PLANS

Substantially all employees of MDC and its subsidiaries are members of defined benefit pension plans, including several multi-employer and foreign plans. MDC makes contributions to its significant domestic pension plans and accrues pension expense in equal amounts based upon independent actuarial valuations, using the aggregate cost method without supplemental liability. Under this method, future contributions necessary to provide for plan benefits will be made during the remaining service lives of the active employees, as a level percentage of estimated future earnings or annual cost per member depending on the benefit formula. The total pension expense was $195.7 million for 1982, $194.3 million for 1981 and $177.3 million for 1980.

Accumulated plan benefits and plan net assets, as of the anniversary dates for which actuarial studies have been completed, for MDC's significant domestic defined benefit plans are presented below:

30 NOVEMBER	1981	1980
Actuarial present value of accumulated plan benefits:		
Vested	$1,514.4	$1,357.4
Nonvested	211.4	174.2
	$1,725.8	$1,531.6
Net assets available for benefits	$2,000.7	$1,840.2

At 30 November 1981, one plan had accumulated plan benefits of $106.2 million in excess of its net assets.

In accordance with Statement of Financial Accounting Standards No. 36, no future service or wage increases were considered in computing the accumulated plan benefits. A weighted average rate of return of 8% was used in both years to discount the accumulated plan benefits to present value.

CUSTOMER FINANCING COMMITMENTS

The marketing of commercial aircraft at times will result in agreements to provide or guarantee long-term financing of some portion of the delivery price of aircraft or to guarantee lease payments and tax benefit transfers. At 31 December 1982, $213.1 million of such guarantees were outstanding. Commitments of $92.3 million were also outstanding to accept notes in payment for aircraft or to guarantee financing for customers, related to ordered but undelivered aircraft.

LEGAL PROCEEDINGS

MDC is a defendant in a number of legal proceedings in which substantial amounts are sought, including litigation initiated by Northrop Corporation relating to the F-18 program. Much of the litigation is covered by insurance. MDC anticipates that the amounts, if any, which may be required to be paid as a result of these proceedings will not be material in relation to the financial position of MDC.

LEASED PROPERTIES

The aggregate rental expense for leased properties was as follows:

YEARS ENDED 31 DECEMBER	1982	1981	1980
Minimum rentals	$102.4	$92.7	$105.3
Contingent rentals	3.1	3.2	2.5
Sublease rental income	(14.1)	(12.4)	(11.5)
	$ 91.4	$83.5	$ 96.3

Minimum rentals include periodic rentals, and, in the case of computers and office equipment, usage charges. Contingent rentals represent payments to the United States Government under a lease, and under facilities contracts where payments are made only for usage on non-government work.

Minimum rental payments under operating leases with initial or remaining terms of one year or more at 31 December 1982 aggregated $104.8 million, and payments due during the next five years were: 1983, $30.0 million; 1984, $21.0 million; 1985, $15.1 million; 1986, $9.0 million; and 1987, $6.6 million.

U.S. GOVERNMENT AND EXPORT SALES

Consolidated sales to U.S. Government agencies (including sales to foreign governments through foreign military sales contracts with U.S. Government agencies), amounted to approximately $4,857.5 million in 1982, $4,362.4 million in 1981 and $3,409.9 million in 1980. No other single customer accounted for 10% or more of consolidated revenues in 1982, 1981 or 1980.

Foreign sales by geographical area, of which a significant portion were through foreign military sales contracts with the U.S. Government, are shown in the table below:

YEARS ENDED 31 DECEMBER	1982	1981	1980
North America	$ 508.7	$ 576.5	$ 156.9
South America	57.0	111.9	187.3
Europe	519.1	757.5	826.7
Asia/Pacific	305.0	493.9	540.3
Mideast/Africa	686.7	829.3	354.6
	$2,076.5	$2,769.1	$2,065.8

REPORT OF ERNST & WHINNEY, INDEPENDENT AUDITORS

Shareholders and Board of Directors
McDonnell Douglas Corporation
St. Louis, Missouri

We have examined the consolidated statement of financial position of McDonnell Douglas Corporation and consolidated subsidiaries as of 31 December 1982 and 1981, and the related consolidated statements of earnings, shareholders' equity and changes in financial position for each of the three years in the period ended 31 December 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of McDonnell Douglas Corporation and consolidated subsidiaries at 31 December 1982 and 1981, and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended 31 December 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

St. Louis, Missouri
27 January 1983

REPORT OF MANAGEMENT RESPONSIBILITIES

The financial statements of McDonnell Douglas Corporation and consolidated subsidiaries have been prepared under the direction of management in conformity with generally accepted accounting principles and, particularly with respect to long-term contracts and programs, include amounts based upon estimates and judgments. The integrity and objectivity of data in these financial statements is the responsibility of management and, in the opinion of management, the financial statements set forth a fair presentation of the consolidated financial condition of MDC at 31 December 1982 and 1981 and the consolidated results of its operations for the years ended 31 December 1982, 1981 and 1980.

MDC and its consolidated subsidiaries maintain accounting systems and related internal accounting controls which, in the opinion of management, provide reasonable assurances that transactions are executed in accordance with management's authorization, that financial statements are prepared in accordance with generally accepted accounting principles, and that assets are properly accounted for and safeguarded.

The Board of Directors has appointed three of its non-employee members as an Audit Committee. This Committee meets periodically with management and the internal and independent auditors. Both internal and independent auditors have unrestricted access to the Audit Committee to discuss the results of their examinations and the adequacy of internal accounting controls. In addition, the Audit Committee makes its recommendations as to the selection of independent auditors to the Board.

SELECTED FINANCIAL DATA BY INDUSTRY SEGMENTS

Financial data related to military aircraft, commercial aircraft, space systems and missiles, and all other industry segments are shown below. These data were developed by classifying each division and subsidiary according to its principal products (except for allocations necessary to segregate military and commercial aircraft operations) and combining related operations into industry segments; consequently the segment data include immaterial amounts related to other products and services. Intersegment transfers were immaterial and principally made at cost.

The military aircraft segment's products include the design, development and production of attack and fighter aircraft, and transport aircraft (including military versions of the DC-series). The attack and fighter aircraft cover a full spectrum of missions (air superiority, close-support, reconnaissance, electronic countermeasures, etc.) and include land-based and aircraft-carrier based versions and the latest in vertical-takeoff-and-landing technology. The commercial aircraft segment's products were primarily DC-series transport aircraft, spare parts and related services, sold to airline customers worldwide. The space systems and missiles segment's products include advanced studies and development and production of satellite launching vehicles, space shuttle components and payloads, laser communications, space manufacturing processes, ballistic missile defense systems and tactical and strategic missiles. The caption, Other industries, presents non-reportable segments which are engaged in computer sales and services, electronics and other industries.

	Sales and Other Income			Earnings			Firm Backlog* (Unaudited)		
Dollar amounts in millions	1982	1981	1980	1982	1981	1980	1982	1981	1980
Military aircraft	$4,099.2	$3,679.5	$2,728.2	$279.7	$265.1	$197.8	$ 8,018.9	$6,420.8	$5,168.9
Commercial aircraft	1,477.4	2,424.0	2,231.4	(45.8)	(85.0)	(144.3)	1,180.6	1,459.2	2,859.7
Space systems and missiles	1,305.5	952.9	834.5	85.9	62.5	49.0	965.2	900.2	709.1
Other industries	530.2	397.4	330.7	(.4)	17.1	(1.4)			
Operating revenues/earnings	7,412.3	7,453.8	6,124.8	319.4	259.7	101.1			
Net earnings of MDFC	16.1	13.4	15.3	16.1	13.4	15.3			
Non-operating income	23.8	34.1	57.9	23.8	34.1	57.9			
General corporate expenses				(7.7)	(5.6)	(4.9)			
Interest and debt expense				(26.7)	(69.8)	(11.7)			
Income taxes				(110.2)	(55.2)	(13.1)			
	$7,452.2	$7,501.3	$6,198.0	$214.7	$176.6	$144.6	$10,164.7	$8,780.2	$8,737.7

	Assets*			Facilities Acquired			Depreciation of Facilities		
Dollar amounts in millions	1982	1981	1980	1982	1981	1980	1982	1981	1980
Military aircraft	$4,309.2	$2,753.2	$1,833.7	$ 87.7	$ 87.8	$ 82.9	$ 42.5	$ 33.6	$ 22.9
Commercial aircraft	2,210.5	2,225.1	2,411.0	26.8	54.7	45.3	23.4	21.1	17.7
Space systems and missiles	803.6	692.1	695.6	37.0	20.4	32.4	19.1	15.9	12.5
Other industries	566.4	492.1	452.9	106.7	67.8	105.2	61.1	51.2	37.5
Used in operations	7,889.7	6,162.5	5,393.2	258.2	230.7	265.8	146.1	121.8	90.6
Less applicable progress payments	(3,871.1)	(2,236.1)	(1,857.9)						
Investment in and advances to MDFC	222.9	324.3	218.2						
Corporate	380.3	113.5	146.3	3.7	3.1	1.6	1.1	1.2	.7
	$4,621.8	$4,364.2	$3,899.8	$261.9	$233.8	$267.4	$ 147.2	$ 123.0	$ 91.3

**Amounts as of 31 December*

INFLATION AND CHANGING PRICES

Generally accepted accounting principles, as used to prepare the consolidated financial statements, were never meant to measure the effects of inflation and changing prices on enterprises. The Financial Accounting Standards Board has an experiment in process to develop understandable measurements of the effects of inflation and the data for MDC using the methodologies prescribed in the Standard is presented in the table below.

MDC's aerospace business is performed under long-term production contracts under which labor, materials and other costs are incurred after the contract is awarded. Generally, the prices in such contracts either take into account the expected inflation of future costs or provide for an adjustment based on inflation occurring during the period of contract performance. In the latter case, the adjustment may be based on the inflation actually experienced by the company or on appropriate published indexes of price changes. Accordingly, in the preparation of the restated amounts, neither contracts in process and inventories nor cost of goods sold were restated to the general premise embodied in the Standard that inventory and cost of goods sold should be at replacement cost.

Assets and liabilities of MDC were segregated between monetary and nonmonetary items, with the gain or loss from holding monetary items during the year computed by using the CPI-U as the measure of the decline in purchasing power of the dollar. Contracts in process and inventories, except for the deferred production and tooling costs were included with other monetary items as being committed to long-term contracts in process. Facilities at the beginning and end of the year, and depreciation for the year, were to be determined in terms of both general inflation and current costs, and the net earnings for the year and net assets at the end of the year adjusted to reflect such redeterminations. The effect of general inflation was determined using the changes in the CPI-U since the dates assets were placed in service, and current costs by using internally-appraised values for land and published construction and wholesale price indexes for other facilities.

The inflation measurements presented below include no adjustment from historical costs for the deferred start-up costs of commercial aircraft programs, which are neither monetary assets, inventory, nor facilities as defined in the Standard.

SUPPLEMENTARY INFLATION DATA, IN AVERAGE 1982 DOLLARS

Years Ended 31 December	**1982**	**1981**	**1980**	**1979**	**1978**
Dollar amounts in millions, except share data					
Sales	$7,331.3	$7,837.6	$7,106.0	$7,019.4	$6,110.9
Net earnings, reduced by the increase in depreciation computed as if facilities costs had been restated for:					
General inflation	177.2	152.5	134.3	236.0	
—per share	4.50	3.84	3.40	6.00	
Current cost	183.3	152.9	131.8	231.3	
—per share	4.66	3.85	3.33	5.88	
Net assets at year-end, adjusted to reflect the cumulative increase in facilities costs for:					
General inflation	2,000.0	1,917.8	1,911.4	1,927.3	
Current cost	2,124.3	2,052.0	2,044.8	2,085.5	
Annual increase in current cost of facilities, less the annual increase therein from general inflation	(6.2)	(25.8)	(43.2)	(16.4)	
Gain (loss) from decline in purchasing power of net monetary assets	(24.3)	(48.2)	(48.0)	(22.1)	
Cash dividends declared — per share	1.24	1.12	1.05	1.00	.89
Market price of MDC Common Stock at year-end — per share	41.53	30.55	55.25	45.90	47.38
Consumer Price Index — Urban (1967=100%)	289.1%	272.4%	246.8%	217.4%	195.4%

In the end-of-year 1982 dollars, facilities net of depreciation was $1,158.4 million on a current cost basis, and $1,020.9 million on a general inflation basis. In average 1982 dollars, the increase in facilities in 1982 was $23.3 million on a current cost basis and $29.5 million on a general inflation basis; the increase in depreciation in 1982 from historical cost was $31.4 million on a current cost basis and $37.5 million on a general inflation basis.

TEN YEAR CONSOLIDATED FINANCIAL SUMMARY

	YEARS ENDED 31 DECEMBER *Dollar amounts in millions, except share data*	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
Summary of Operations	Sales by class of products:										
	Military aircraft	$ 4,088.1	$ 3,600.1	$ 2,693.6	$ 2,337.0	$2,287.3	$2,127.3	$1,920.8	$1,406.3	$1,180.9	$1,053.0
	Commercial aircraft	1,430.4	2,447.2	2,219.5	1,932.1	953.8	682.9	1,029.9	1,312.7	1,374.0	1,334.5
	Space systems and missiles	1,298.6	952.1	830.2	789.7	720.0	595.7	482.7	454.5	450.0	562.4
	Computer services, electronics and other	514.2	385.5	323.0	219.7	169.2	138.9	110.3	82.2	70.1	52.7
	Total sales	7,331.3	7,384.9	6,066.3	5,278.5	4,130.3	3,544.8	3,543.7	3,255.7	3,075.0	3,002.6
	Cost of products and services	6,084.1	6,296.4	5,240.9	4,435.3	3,395.9	2,914.3	2,965.3	2,720.5	2,480.8	2,389.1
	Research and development	254.1	215.7	199.0	194.0	168.8	123.9	105.6	132.2	139.5	142.8
	Interest and debt expense	26.7	69.8	11.7	10.8	6.8	10.1	23.9	40.3	50.6	25.2
	Income taxes	110.2	55.2	13.1	111.4	120.3	93.4	70.8	40.1	70.6	97.1
	Net earnings	214.7	176.6	144.6	199.1	161.1	123.0	108.9	85.6	106.7	133.3
	Earnings per share	5.44	4.44	3.65	5.06	4.14	3.20	2.85	2.27	2.77	3.36
	Earnings as % of sales	2.93%	2.39%	2.38%	3.77%	3.90%	3.47%	3.07%	2.63%	3.47%	4.44%
	Earnings as a % of beginning equity	12.98%	11.68%	10.49%	16.59%	15.26%	13.01%	12.85%	11.09%	15.48%	23.06%
	Cash dividends declared	47.6	41.2	34.4	28.1	22.3	18.4	16.1	14.5	14.7	14.3
	Cash dividends declared per share	1.24	1.06	.90	.75	.60	.50	.44	.40	.40	.38
Financial Position on 31 December	Current assets	$ 3,278.8	$ 3,014.2	$ 2,919.8	$ 2,580.8	$2,480.1	$2,018.3	$1,721.8	$1,813.6	$1,807.2	$1,574.1
	Facilities (net)	829.4	727.4	623.9	449.3	343.2	249.6	237.7	243.6	254.2	259.9
	Other assets	513.6	622.6	356.1	350.5	274.9	199.6	170.1	150.6	164.3	153.5
	Total assets	$ 4,621.8	$ 4,364.2	$ 3,899.8	$ 3,380.6	$3,098.2	$2,467.5	$2,129.6	$2,207.8	$2,225.7	$1,987.5
	Current liabilities	$ 2,731.9	$ 2,639.4	$ 2,311.4	$ 1,915.7	$1,822.7	$1,332.2	$1,046.3	$1,115.1	$1,349.4	$1,180.7
	Long-term debt	70.3	71.3	75.9	86.7	75.7	79.5	138.0	245.7	104.0	117.8
	Shareholders' equity	1,819.6	1,653.5	1,512.5	1,378.2	1,199.8	1,055.8	945.3	847.0	772.3	689.0
	Total liabilities and shareholders' equity	$ 4,621.8	$ 4,364.2	$ 3,899.8	$ 3,380.6	$3,098.2	$2,467.5	$2,129.6	$2,207.8	$2,225.7	$1,987.5
	Shareholders' equity per share	$ 47.24	$ 42.93	$ 39.50	$ 36.75	$ 32.23	$ 28.53	$ 25.73	$ 23.23	$ 21.31	$ 18.54
General Information	Expenditures for facilities (net)	$ 247.6	$ 225.6	$ 265.9	$ 156.7	$ 142.1	$ 54.8	$ 40.9	$ 33.1	$ 35.0	$ 33.1
	Depreciation of facilities	$ 147.2	$ 123.0	$ 91.3	$ 67.8	$ 48.5	$ 43.0	$ 41.2	$ 43.7	$ 40.7	$ 41.4
	Floor area, in millions of gross square feet	29.9	28.8	27.9	26.8	25.6	25.2	24.8	24.3	27.5	27.7
	Shares outstanding on 31 December *(in millions)*	38.5	38.5	38.3	37.5	37.2	37.0	36.7	36.5	36.2	37.2
	Shareholders of record on 31 December	48,611	52,934	54,420	57,631	57,496	62,432	66,637	72,765	72,672	68,588
	Personnel on 31 December	72,451	74,264	82,550	82,736	70,547	61,577	57,867	62,830	70,739	78,799
	Payroll	$ 2,087.4	$ 2,025.4	$ 1,922.2	$ 1,634.8	$1,293.0	$1,079.5	$1,010.0	$ 992.6	$1,082.6	$1,105.8
	Firm backlog on 31 December	$10,164.7	$ 8,780.2	$ 8,737.7	$ 6,909.2	$5,980.9	$4,597.2	$2,966.8	$2,922.8	$3,176.6	$3,486.3
	Total backlog on 31 December	$17,181.0	$14,672.4	$13,696.1	$10,801.2	$8,479.2	$6,965.4	$5,878.9	$5,945.9	$4,962.1	$5,585.2

Total backlog includes firm backlog plus (a) government orders not yet funded to us, (b) government orders being negotiated as continuations of authorized programs and (c) commercial orders subject to contingencies. Backlog is that of the aerospace segments only but includes all but a minor portion of the work to be performed under long-term contracts. Customer options and products produced for lease are excluded from backlog.

SUPPLEMENTAL INFORMATION

Quarterly Results of Operations:
The table below presents unaudited quarterly financial information for the years ended 31 December 1981 and 1982.

Quarter	Sales	Gross Margin	Net Earnings	Earnings Per Share
YEAR ENDED 31 DECEMBER 1981:				
1st	$1,626.4	$267.9	$41.3	$1.03
2nd	1,884.2	280.2	48.3	1.21
3rd	1,777.1	280.6	51.7	1.30
4th	2,097.2	259.8	35.3	.90
YEAR ENDED 31 DECEMBER 1982:				
1st	$1,708.8	$298.7	$48.5	$1.23
2nd	1,869.7	304.1	49.8	1.27
3rd	1,825.1	297.7	55.5	1.40
4th	1,927.7	346.7	60.9	1.54

Earnings per share were impacted by a provision ($.64 a share) for restructuring or default on some commercial airline financing transactions in the fourth quarter of 1981.

Quarterly Common Stock Prices and Dividends:
The range of market prices for a share of MDC Common Stock is shown below, by quarters for 1982 and 1981. Prices are as reported in the consolidated transaction reporting system.

	1982		1981	
Quarter	High	Low	High	Low
1st	$35	$28 5/8	$49 5/8	$40 7/8
2nd	39 3/8	33 5/8	44 1/8	35
3rd	44 1/4	33 1/4	39 3/8	22 1/2
4th	44 1/2	35 1/8	33 3/4	25 1/2

Cash dividends of $.31 a share were declared for each quarter in 1982 and $.265 a share each quarter in 1981.

Transfer Agents:
Shareholder Records Department, McDonnell Douglas Corporation; Centerre Trust Company of St. Louis; The Chase Manhattan Bank, New York

Registrars:
Centerre Trust Company of St. Louis; Chemical Bank, New York

Stock Exchanges:
McDonnell Douglas Corporation Common Stock is listed on the New York, Pacific, Brussels and Amsterdam Stock Exchanges.

Annual Report on Form 10-K:
Upon written request of any shareholder to Bryson R. Younger, Manager-Shareholder Records, McDonnell Douglas Corporation, P.O. Box 516, St. Louis, Missouri, 63166, MDC will furnish without charge a copy of its most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission.

MCDONNELL DOUGLAS CORPORATION

BOARD OF DIRECTORS

*Executive Committee

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*JOHN F. MCDONNELL, President

GEORGE H. CAPPS, President, Capitol Coal & Coke Co., St. Louis

MICHAEL N. CHETKOVICH, Director of External Affairs and Lecturer, School of Business Administration, University of California at Berkeley; Retired Managing Partner in the accounting firm of Deloitte, Haskins & Sells

WILLIAM H. DANFORTH, M.D., Chancellor, Washington University, St. Louis

DONALD W. DOUGLAS, JR., Business Consultant, Santa Monica

ELLIOTT M. ESTES, Retired President and Chief Operating Officer and Director of General Motors Corporation

*GEORGE S. GRAFF, Retired President MCAIR

ROBERT L. JOHNSON, Corporate Vice President - Group Executive

*EDWIN S. JONES, Retired Chairman of the Board, Centerre Bancorporation, St. Louis, and Retired Chairman of the Board, Centerre Bank NA, St. Louis

ROBERT C. LITTLE, Corporate Vice President - Group Executive

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JERRY MCAFEE, Retired Chairman and Chief Executive Officer, Gulf Oil Corporation

JAMES S. MCDONNELL III, Corporate Vice President - Marketing

*WILLIAM R. ORTHWEIN, JR., Retired Chairman MCAUTO

WILLIAM A. MCDONNELL, Advisory Director; Retired Chairman of the Board, Centerre Bank NA, St. Louis

CORPORATE OFFICE

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DONALD P. AMES, Staff Vice President - McDonnell Douglas Research Labs

ANATOLE BROWDE, Staff Vice President - Microelectronics Center

JERRY G. BROWN, Corporate Vice President - Treasurer

JAMES T. BURTON, Staff Vice President - Far East

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JOHN E. CROSTHWAIT, Corporate Vice President - Eastern Region

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GERALD J. MEYER, Corporate Vice President - External Relations

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ERNIE H. RIDENHOUR, Staff Vice President - Information Resource Management

JOHN T. SANT, Corporate Vice President - General Counsel

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JOHN W. WALBRAN, Corporate Assistant General Counsel

MICHAEL WITUNSKI, Staff Vice President - Charitable Affairs

HAROLD C. YOST, Corporate Vice President - Productivity

COMPONENT OFFICERS

*Also Corporate Vice President

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LOUIS F. HARRINGTON, Vice President - Program Management
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ROBERT H. KINDER, Vice President - Government Marketing
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RICHARD M. RANDALL, Vice President - Contracts & Pricing
ROGER D. SCHAUFELE, Vice President - Engineering
JOSEPH D. VAN DYKE, JR., Vice President - General Manager - C-17
HOWELL L. WALKER, Vice President - Commercial Sales - The Americas
WILLIAM R. WORRELL, Vice President - Material
LYLE A. WRIGHT, Vice President - Quality Assurance

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THOMAS C. MOORE, Assistant Vice President - Product Financing
DANIEL P. O'CONNELL, Controller
ROBERT W. OWSLEY, Vice President - Treasurer

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WILLIAM T. CORUM III, V.P. - Data Services & Product Devel. - HSD
DURWOOD J. GARRITY, Vice President - Fiscal Management
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GEORGE MEISTER, Vice President - Discrete Manufacturing Industry
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WARREN B. RIGDON, Vice President - MDC Services
GUY T. ROSE, Vice President - Industry & Product Sales
FRANCIS V. STEFANIK, JR., Vice President - Marketing & Client Services - HSD
WILLIAM R. VICKROY, Vice President - Product Management & International Sales

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A. BRUCE BENNETT, Secretary
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CHARLES R. GOLLIHAR, Vice President - Fiscal & Treasurer

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CLARENCE F. PICARD, Vice President - Fiscal Management
GEORGE P. URIAS, Vice President - Marketing
HAROLD F. WOCHHOLZ, Vice President - Engineering
JOHN D. WOLF, Vice President - Program Management

†A Division
‡A Subsidiary

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JOHN N. SCHULER, Vice President - Fiscal Management
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VINCENT J. MURRAY, Vice President - Operations - St. Louis
ADRAIN P. O'NEAL, Vice President - Space Programs - Huntington Beach
RAYMOND A. PEPPING, Vice President - Defense Satellite Program - St. Louis
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BILL E. STITT, Vice President - Operations - Huntington Beach
HENRY L. TACKWELL, Vice President - Fiscal Management - St. Louis
NED T. WEILER, Vice President - Missile Programs - Huntington Beach

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PAUL A. HORN, Vice President - Operations & Fiscal Management

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CARL J. BRANDT, Vice President - European Marketing, Sales & Service
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VERN H. HART, Vice President - North American Field Service
HENRY G. KOHLMANN, Chief Counsel
BRONSON H. PURDY, Vice President - Corporate Marketing
FRANK J. REINHART, Vice President - U.S. Engineering

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JERRY F. BORDELON, Vice President, Secretary & Treasurer

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RALEIGH L. HUNTSMAN, Vice President - Deputy General Manager
JAMES B. MILLER, Vice President - Special Projects